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Audit Report Number	2008-KC-0004

TO: Brian D. Montgomery, Assistant Secretary for Housing – Federal Housing
Commissioner, H

//signed//

FROM: Ronald J. Hosking, Regional Inspector General for Audit, 7AGA

SUBJECT: HUD’s Office of Single Family Housing Could Improve the Reliability of Its
Process for Reporting Performance Measure Results

HIGHLIGHTS

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development’s (HUD) Office of Single Family Housing (Single Family) to determine whether Single Family implemented a reliable process to ensure accurate reporting of its performance measure results.

What We Found

Single Family could improve the reliability of its process for reporting performance measure results. Single Family has a performance measurement process in place; however, it could make the process more reliable if it routinely evaluated data used for performance measure results and formally documented its structure and process for developing, monitoring, and reporting on performance measures.

What We Recommend

We recommend that HUD establish and implement effective written policies and procedures for routinely evaluating the data used to report performance measure results to ensure that the data are the most accurate and appropriate data available. We also recommend that HUD establish and implement effective written policies and procedures for developing, monitoring, and reporting on performance measures.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided the report to HUD on April 25, 2008, and asked for comments by May 26, 2008. Single Family requested, and we granted, an extension to May 29, 2008. On May 29, 2008, Single Family asked for another extension to June 4, 2008, which we granted. On June 4, 2008, we received draft comments. We continued to seek official comments until June 19, 2008, when we received Single Family's official comments. In its response, HUD provided additional clarification of its processes and agreed to implement our recommendations.

The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix A of this report.

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BACKGROUND AND OBJECTIVES

The U.S. Congress passed the Government Performance Results Act of 1993 (Performance Act) because it found, in part, that federal managers were seriously disadvantaged in their efforts to improve program efficiency and effectiveness because of insufficient articulation of program goals and inadequate information on program performance. It also found that congressional policy making, spending decisions, and program oversight were seriously handicapped by insufficient attention to program performance and results. The U.S. Congress passed the Performance Act to alleviate these problems by requiring federal agencies to incorporate strategic planning and performance measurement into agency management.

The Performance Act is intended, in part, to improve congressional decision making by giving the U.S. Congress comprehensive and reliable information on the extent to which federal programs are fulfilling their statutory intent. Managers should use performance information to continuously improve organizational processes, identify performance gaps, and set improvement goals. Decision makers are to routinely receive the performance and cost information needed to assess their programs and make informed decisions.

In its Executive Guide for Effectively Implementing the Government Performance and Results Act, the U.S. Government Accountability Office identifies key steps that agencies need to take toward implementing Performance Act requirements, along with a set of practices that can help ensure that agencies generate the information congressional and executive branch decision makers need in considering measures to improve government performance and reduce costs. One of the recommended practices is that agencies collect sufficiently complete, accurate, and consistent data. The guide points out that agencies need to ensure that the collected data are complete, accurate, and consistent enough to document performance and support decision making at various organizational levels.

The U.S. Department of Housing and Urban Development (HUD) reports its performance measure results to the U.S. Congress in HUD's annual performance and accountability report. HUD's Office of Single Family Housing (Single Family) is responsible for developing its performance data for reporting its accomplishments in HUD's performance and accountability report. Single Family reported the results of 12 performance measures in HUD's 2006 performance accountability report and 13 results in its 2007 report.

The objective of our audit was to determine whether Single Family implemented a reliable process to ensure accurate reporting of its performance measure results.

RESULTS OF AUDIT

Finding: Single Family Could Improve the Reliability of Its Process for Reporting Performance Measure Results

Single Family has a performance measurement process in place; however, it could make the process more reliable if it strengthened its process controls. Single Family had not considered the potential benefits of a more structured process and how it could improve its performance measurement process. By strengthening its controls, Single Family could better ensure the accuracy of reported accomplishments and that it used the most appropriate data available, thereby avoiding unintended effects on funding and program decisions.

Single Family has a performance measurement process in place that it has used for many years. However, it could improve its controls over the process if it routinely evaluated data used for performance measure results and formally documented its structure and process for developing, monitoring, and reporting on performance measures.

Accuracy and Appropriateness of Changes to Performance Data Not Fully Evaluated

Single Family could not show that it had evaluated the impact of changes made to some of the data routinely used for its performance measure results. It could not show that it had evaluated the data to ensure that the data were the most accurate and appropriate available for reporting performance. U.S. Office of Management and Budget Circular A-136 requires agencies to ensure that performance data reported in annual performance reports are reliable and complete. In addition, the U.S. Government Accountability Office's guidelines on internal controls state that agencies need to establish controls to monitor performance measures and indicators and that these controls should be aimed at validating the propriety and integrity of performance measures and indicators.

Single Family reported its performance results for 12 performance measures in HUD's fiscal year 2006 performance accountability report and 13 measures in the 2007 report. We reviewed the reported results for 14 of the 25 performance measures and identified two examples of changes made to the methods Single Family used to develop performance data and report performance results in fiscal year 2007 as compared with fiscal year 2006. However, Single Family could not show that it had evaluated the new processes to ensure that the changes provided the most accurate and appropriate results for reporting performance.

In the first example, a Single Family contractor used a different data system report when developing performance data and reporting fiscal year 2007 performance measure results than it had used for 2006. However, Single Family could not demonstrate that it had performed an analysis to determine whether the change made

by the contractor was appropriate or that the report used by the contractor contained the most appropriate data available to report accurate and complete results in HUD's performance accountability report. Further, Single Family could not show that it had approved or was even aware of the change made by the contractor.

In the second example, Single Family changed its method for developing housing counseling program performance measures and reporting the performance measure results between fiscal years 2006 and 2007. For fiscal year 2006, HUD reported its annual performance by estimating what it thought it had accomplished in 2006 based on actual accomplishments from fiscal year 2005. For fiscal year 2007, HUD changed its method and reported its performance using only three fiscal year quarters of actual accomplishments data. HUD changed its method based on concerns reported by the Office of Inspector General (OIG) in 2006. However, Single Family could not show whether it had evaluated the data used for reporting housing counseling program performance measure results to ensure that the data were the most accurate and appropriate data available.

**Performance Measurement
Process Could Benefit from a
More Structured Approach**

While we recognize that Single Family has had a performance measurement process in place for years, it had not documented its structure and processes for developing, monitoring, and reporting on performance measures. The U.S. Government Accountability Office's guidelines on internal controls state that internal controls and all transactions and other significant events need to be clearly documented and readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals.

Single Family officials told us that although they did not have a fully documented structure or process, senior officials held meetings to review historical performance data and analyses of future business volume in their efforts to address governmental performance measurement requirements. However, Single Family could not show to what extent that its managers evaluated business data or reached decisions and made plans for how Single Family would develop, monitor, and report on its performance measures.

In addition, Single Family routinely employed contractors to obtain performance measure results from reports generated by Single Family data systems and to report the results in HUD's Integrated Performance and Reporting system. However, it had not developed detailed policies and procedures to identify the data fields to use from the reports, the calculations to perform, or the step-by-step process for entering the data into the performance reporting system. In order to perform their duties the current contractor employees relied on on-the-job training and informal information obtained from contractor employees that had performed the tasks in the past.

Single Family Managers Had Not Assessed the Benefits of Added Controls to Improve the Process

Single Family had not considered whether a more structured process could improve controls over its performance measurement process. More specifically, it was not aware of its technical responsibilities and had not considered the positive impact that strengthening controls could have on performance and reporting performance measure results. The U.S. Government Accountability Office's guidelines on internal controls state that management is responsible for developing detailed policies, procedures, and practices to ensure that they are built into and an integral part of operations.

Single Family officials told us that the Single Family performance measures used in fiscal years 2006 and 2007 had been in place for many years. They also stated that the HUD data systems used to support the reported performance results had changed very little or not at all in recent years. Therefore, they felt it was not necessary to reevaluate the data used to support performance results to ensure that the data were the most accurate and appropriate data available. However, Single Family officials agreed that having a documented structure and processes in place would be beneficial.

Reported Performance Measure Results Could Be More Reliable

By strengthening its controls, Single Family could better ensure the accuracy of reported accomplishments and the use of the most appropriate data available. Therefore, congressional and HUD decision makers would have more reliable performance data with which to make more informed funding and program decisions.

The U.S. Congress passed the Performance Act to improve federal program efficiency and effectiveness, congressional policy making, spending decisions, and program oversight. It expected federal agencies to annually report comprehensive and reliable information on their accomplishments, which it could then use to make informed decisions on funding federal programs and whether to make changes to the individual programs. Further, it expected agency managers to use the performance information to continuously improve program performance and reduce costs.

Without improvements to its performance measure controls, decision makers are at risk of not having the most accurate information on which to base funding and program decisions. In addition, Single Family increases its risk of not being able

to manage its programs with maximum efficiency and effectiveness, or to manage its programs to ensure that they are fulfilling their statutory intent.

Therefore, having the most reliable performance data available is critical to decision makers to ensure that they are providing scarce federal resources to programs that are accomplishing their statutory intent, and reevaluating and making changes to programs that are not adequately assisting those intended to be served.

Recommendations

We recommend that HUD's Assistant Secretary for Housing

- 1A. Establish and implement effective written policies and procedures for routinely evaluating the data used to report performance measure results to ensure that the data are the most accurate and appropriate data available.
- 1B. Establish and implement effective written policies and procedures for developing, monitoring, and reporting on performance measures.

SCOPE AND METHODOLOGY

Our review period was from October 1, 2005, to September 31, 2007. We expanded the period as needed to evaluate historical and current information pertinent to our review. We limited the review to Single Family's developing, monitoring, and reporting on performance measures.

To achieve our objectives, we interviewed HUD staff from its Office of Housing, Office of Single Family Housing, and Office of Departmental Operations and Coordination to gain an understanding of the process involved in developing, monitoring, and reporting on performance measures. We also reviewed Government Accountability Office and HUD OIG reports, data obtained from HUD's computer systems, and applicable federal requirements.

In addition, we selected a sample of the Single Family performance measures for fiscal years 2006 and 2007. Single Family had 12 performance measures in 2006 and 13 in 2007. We selected 14 performance measures to review:

- Five measures related to grant-based activities (two from fiscal year 2006 and three from fiscal year 2007) and
- Nine measures that were not related to grant-based activities (five from fiscal year 2006 and four from fiscal year 2007).

We compared the performance reported for these measures in HUD's performance accountability report to reports generated by HUD's data systems. We did not assess the accuracy or the validity of the data. We reviewed reports from the systems only to understand and evaluate the process used by Single Family in developing, monitoring, and reporting on its performance measures. We did not rely on the data to reach our conclusions and, therefore, did not assess the accuracy or validity of the data.

We performed on-site work from October 2007 to March 2008 at HUD headquarters located at 451 7th Street, SW, Washington, DC.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined the following internal controls were relevant to our audit objectives:

- Controls over Single Family's developing, monitoring, and reporting on its performance measures.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weakness

We did not identify any significant weaknesses.

APPENDIXES

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

JUN 19 2008

MEMORANDUM FOR: Ronald J. Hosking, Regional Inspector General for Audit, 7AGA

FROM:

Brian B. Montgomery
Brian B. Montgomery, Assistant Secretary for Housing -
Federal Housing Commissioner, H

SUBJECT:

Discussion Draft - Office of Single Family Housing's Performance Measures
Draft Issue Date: April 25, 2008

The Office of Inspector General (OIG) performed the subject audit of Single Family Housing's Performance Measures to determine whether Single Family implemented a reliable process to ensure accurate reporting of its performance measure results. During the course of the audit, OIG determined that Single Family has a performance measurement process in place; however, it could make the process more reliable if it routinely evaluated data used for performance measure results and formally documented its structure and process for developing, monitoring, and reporting on performance measures. Single Family's responses to the audit results are as follows.

OIG's Determination:

Page 5 in the report states that Single Family reported its performance results for 12 performance measures in HUD's fiscal year 2006 performance accountability report and 13 measures in the 2007 report. OIG reviewed the reported results for 14 of the 25 performance measures and identified two examples of changes made to the methods Single Family used to develop performance data and report performance results in fiscal year 2007 as compared with fiscal year 2006. Based on this review, OIG determined that Single Family could not show it had evaluated the new processes to ensure that the changes provided the most accurate and appropriate way to report performance results. The report also states that a new Single Family contractor used a different data system report when developing performance data and reporting fiscal year 2007 performance measure results than the previous contractor had used for 2006 and Single Family could not show that it had approved or was even aware of the change made by the contractor reporting the latest data. OIG based its determination in part on the way the data was obtained and calculated for reporting "the number of single family endorsements made in underserved communities (C.3.01)."

Single Family's Response:

Single Family appreciates that OIG has determined this office's procedures for validating should be in writing. Single Family would like to clarify that staff of Dennison and Associates (Dennison), a HUD contractor for Single Family Housing from fiscal years 2002 through 2007, reported the performance measure data for both of these periods; the new HUD contractor was not involved in the process. Although two different employees of Dennison reported the performance data for the periods in question and used a different statistical report, both reports were generated by the same system. In addition, the senior management recommended the change in the report used and the way

Comment 1

Comment 2

Comment 3

ensures more accurate data was being reported. Changes and decisions of this nature are not made by the contractor in a vacuum or without first consulting with senior managers and staff. Further, the data was validated by the Program Office directors and through the Financial Statement audit process. The method for calculating the data reported for fiscal year 2007 resulted in a minimal and less than one percent difference from the prior years. Also, it should be noted that OIG did not determine that the less than one percent difference in data reported caused the Department to grossly misrepresent this performance measure.

Comment 4

Comment 3

It should also be noted that Single Family makes annual and mid-year adjustments to its performance measures. This includes and is not limited to performing a thorough evaluation of each performance measure, analyzing methods for reporting results and validating the source and accuracy of data reported. The data is validated by the contract employee, and Program Offices in headquarters and the Homeownership Centers prior to issuance of any reports.

OIG's Determination:

OIG also determined that Single Family changed its method for developing housing counseling program performance measures and reporting performance measures results between 2006 and 2007. For fiscal year 2006, HUD reported its annual performance by estimating what it thought it had accomplished in 2006 based on actual accomplishments from fiscal year 2005. For fiscal year 2007, HUD changed its method and reported its performance using only three fiscal year quarters of actual accomplishment data. HUD changed its method based on concerns reported by the OIG in 2006. The report further states that single Family could not show whether it had evaluated the data used for reporting housing counseling program performance measure results to ensure that the data were the most accurate and appropriate data available.

Single Family's Response:

Single Family disagrees with OIG's conclusion regarding the example of the housing counseling program. HUD was granted the authority by OMB in FY 2006 to collect HUD-9902 Activity Reports from HUD-approved housing counseling agencies on a quarterly basis. HUD began collecting these forms on a quarterly basis in FY 2007. Collecting the data on a quarterly basis allows the program office to base estimates of annual outcomes reported in the Department's Performance and Accountability Report on more recent data. The Program Office agreed to incorporate the use of more recent data in the program's methodology for projecting the Housing Counseling Program's performance results based on an OIG Audit recommendation. The program now has the ability to use three fiscal year quarters of actual accomplishments data to develop projections of annual performance results rather than relying on outdated data from the previous fiscal year. The data collection instrument did not change nor did the data elements. The new methodology allows staff to make performance projections with the most recent quarterly data available instead of year old data. Therefore, there was no reason for program staff to "evaluate whether the new processes provided the most accurate and appropriate way to report performance results." Reporting the most recent data available clearly and accurately reflects the true statistical activity for this performance measure.

Comment 5

Recommendation 1A:

Establish and implement effective written policies and procedures for routinely evaluating the data used to report performance measure results to ensure that the data are the most accurate and

Comment 6

appropriate data available.

Single Family's Response:

The procedures and source for reporting data for each measure are written in the Department's Annual Performance Plan Report as required by OMB. In addition, calculations performed to validate the accuracy of performance measure results are notated on hard copies of the respective system generated reports. While a granular step by step process was not documented, Single Family Housing will issue internal policy that satisfies this recommendation.

Recommendation 1B:

Establish and implement effective written policies and procedures for developing and monitoring and reporting on performance measures.

Single Family's Response:

Single Family agrees to implement written policies and procedures for developing and monitoring and reporting on performance measures.

OIG Evaluation of Auditee Comments

- Comment 1** We revised the report to clarify the status of contractors assisting with performance measures in 2006 and 2007.
- Comment 2** Single Family officials told us that it was possible that the contractor presented the change in reports to Single Family staff but any decisions or approval regarding the change would have been verbal and not likely documented. We requested that Single Family provide documentation of its involvement with the decision to make the change but Single Family did not provide any documentation or explanation of what took place with the change in reports.
- Comment 3** As explained in comment 2, Single Family did not provide documentation or an explanation regarding its involvement in the change in reports. As stated in the report, Single Family officials told us that senior managers held meetings to review historical performance data and analyses of future business volume but they could not show to what extent that managers evaluated the data.
- In addition, based on our understanding of the review performed by the Office of the FHA Comptroller for the financial statement audit process, the Office of the FHA Comptroller did not validate the data to ensure that it is the most accurate and appropriate data available. The Office of the FHA Comptroller reviewed the reports used by the Single Family contractor when the contractor reported Single Family's performance measures and compared the performance measures identified and calculated from these reports to the performance measures reported in the FHA financial statements. This process is simply a second check to make sure that the reports support the performance measures reported in the financial statements. Therefore, the data review performed by the Office of the FHA Comptroller does not constitute an analysis of the accuracy and appropriateness of the data.
- Comment 4** We agree that the result of the change in reports was minimal in the example given in the report. However, Single Family could not show whether the change made by the contractor was appropriate or that the report used contained the most appropriate data available to report accurate and complete results. If Single Family allows contractors to make decisions regarding how to obtain data to report on performance measures, without appropriate and documented input from Single Family, this could result in incorrect reporting and could make a more significant difference in another situation.
- Comment 5** We agree that as a result of an OIG report Single Family made positive changes in its process for obtaining and reporting on performance measures for the housing counseling program when it agreed to use actual data rather

than estimating results based on historical performance. We also recognize that the data collection instrument and the data element did not change.

Single Family could not show whether it had evaluated the data collection instrument and the data elements used for reporting performance measure results to ensure that the data were the most accurate and appropriate data available. Using the same data collection instrument and the same data elements as in the past does not always ensure that this produces the most accurate and appropriate results. We changed the statement in the report to better characterize the conclusion.

Comment 6

HUD's annual performance plan provides general, overall information pertaining to each of HUD's performance measures. The plan does not provide the level of information needed to show that Single Family adequately ensures the accuracy of reported accomplishments and the use of the most appropriate data available.

For each performance measure, the annual performance plan has four categories:

- Indicator background and context,
- Data source
- Limitations/advantages of the data, and
- Validation, verification, and improvement of measure.

The indicator background and context explains why this information is included as a performance measure but does not provide details of the data source or validation efforts performed by the program offices. The remaining three categories are also general and do not provide details showing what efforts Single Family makes to analyze the accuracy of reported accomplishments and appropriateness of data used. While the annual performance plan provides general information about each performance measure, it does not constitute sufficient evidence of a reliable process for reporting performance measure results.